

Service Date: May 1, 1984

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER of the Application) UTILITY DIVISION
by the PACIFIC POWER AND LIGHT)
COMPANY, for Authority to Increase) DOCKET NO. 83.10.71
Rates for Electric Service.) ACCOUNTING ORDER NO.
5028b

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FINDINGS OF FACT

1. On January 16, 1984, Pacific Power & Light Company (PP&L, Company) filed an application with the Montana Public Service Commission (Commission) requesting authority to either allow deferred billing of Colstrip Unit No. 3 costs with a surcharge for 12 months, or to allow the Company to continue to accrue AFUDC on the Colstrip project.

2. The Commission recognizes that PP&L has been incurring operating and capital costs since January 10, 1984, the date of commercial operation of Colstrip Unit No. 3. PP&L noted in its application that rates have been suspended until a final order is issued. As a result of these factors, the Commission finds that it is compelled to address a potential major negative financial impact on PP&L.

3. In choosing between the use of deferred billing and the continued accrual of AFUDC, the Commission prefers the AFUDC alternative. Use of continued AFUDC will serve to continue an interest allowance while enabling the Commission to reserve judgement on-the application's contested issues until the final order is rendered.

4. Due to the probability of earnings erosion, the Commission finds that the accrual of AFDUC is appropriate to moderate the revenue loss for the time period from January 10, 1984, to the issuance date of the Commission's final order. The accrual will allow PP&L to earn a return on whatever portion of its Colstrip Unit No. 3 and related facilities investment that is ultimately approved by the Commission for inclusion as a part of PP&L's rate base.

AFDUC will be permitted to accrue on Colstrip Unit No. 3 and related facilities for the time period from January 10, 1984, to the date the Commission's final order in the docket is issued.

5. The rate of interest to be used in the calculation of AFUDC is 10.75 percent. The 10.75 percent is based on PP&L's cost of capital determined from the most recent PP&L rate case, Docket No. 83.5.36. The cost of equity portion of this return, 13.75 percent unchanged from Docket No. 83.5.36, is to be at a gross tax rate.

6. Only the approved amount of Colstrip Unit No. 3 and related facilities will be used to calculate AFUDC. If all of the plant is approved, then 100 percent of the plant will be subject to AFUDC. For example, however, if 60 percent of the plant is approved, then only 60 percent of the plant will be used to derive AFUDC.

7. AFUDC will be calculated based upon the exact number of days between the January 10, 1984, date of commercial operation and the date of issuance of the Commission's final order.

8. AFUDC will be amortized over a period of 3 years with no interest or carrying charges on the unamortized balance. The amortization period shall begin to run from the issuance date of the Commission's final order.

In the past, the Commission has used a 3-year period to amortize regulatory expense, reasoning that in non inflationary periods, utilities usually do not file rate increase applications annually or every 9 months. A 3-year period, therefore, reasonably reflects the usual time period that elapses between a utility's rate filings.

9. The Commission finds that the granting of AFUDC is a positive regulatory approach to mitigate the effects of a possible earnings erosion. The Company receives a return on its capital investment during the period when this rate case docket is being processed. The ratepayers are protected because the amount of AFUDC is limited to the amount of PP&L's investment in Colstrip Unit-No. 3 and related-facilities which is approved in the Commission's final order.

CONCLUSIONS OF LAW

1. The Pacific Power and Light Company is a public utility furnishing electric service to consumers in the State of Montana, subject to the supervision, regulation, and control of this Commission. Title 63, Chapter 3, MCA, Section 69-3-102, MCA.

DONE IN OPEN SESSION at Helena , Montana the 30th day of April, 1984, by a 5-0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Chairman

CLYDE JARVIS, Commissioner

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill

Commission Secretary
(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.